CS SB92 (RES) \L Corporate Income Tax for Certain Oil and Gas Entities

Senate Resources Committee

Department of Revenue

April 2, 2025

Dan Stickel
Chief Economist, Tax Division
Alaska Department of Revenue

THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Bill Sponsor Request to Department of Revenue

- “Fiscal Policy Analysis” for CS SB 92 \L
- Similar to SB 114 presentation to Senate Finance on May 1, 2023
- SB 114 (2023) included both production tax and corporate income tax provisions, while SB 92 (2025) includes only corporate income tax
- Similar presentation outline, except for “order of operations” and effective tax rate slides for production tax

Presentation Overview

- Background & Tax Program History
- Proposed Legislation
- Updated Fiscal Note Summary
- Distribution of Profits
- Appendix: Distribution of Profits with Higher and Lower Cost Producer

BACKGROUND &
TAX PROGRAM HISTORY

Types of Legal Entities

- Individual – files an individual income tax return
- C-corporation – income taxed on corporate tax return

- "Pass-through entities"
  - Sole proprietorship – one individual owner
  - Partnership – at least two owners, individual or corporate
  - Limited Liability Company – one or more owners, individual or corporate
  - **S-corporation – up to 100 individual owners**
  - *Note: Pass-through can own other pass-through, for example an S-corp can be an owner of an LLC or partnership*

- Other entity types: Benefit, Closely held, Co-op, LLP, etc.

Oil & Gas Corporate Income Tax: Historical Review

- Alaska Net Income Tax Act – 1949
- Uniform Division of Income tor Tax Purposes Act - 1959
- Multistate Tax Compact (MTC) – 1970
- Revised to include adopting Internal Revenue Code (IRC) by reference unless excluded – 1975
- Separate Accounting – 1978-1981
- Repealed Individual Income Tax and “Created” S-Corporation “Exemption” – 1980
- Adopted Current Oil & Gas Apportionment Factor on worldwide income – 1981
- Current tax brackets (reduced tax for small businesses) – 2014

Oil & Gas Corporate Income Tax: Current Fiscal Regime

- Applies to C-Corporations only
  - Many, but not all, companies in Alaska
- "Alaska Taxable Income" determined using an "apportionment factor"
  - Non-Petroleum – based on U.S. "water's edge" activity, apportioned to Alaska based on Alaska's share of property, payroll, and sales
  - Petroleum – based on worldwide activity, apportioned to Alaska based on Alaska's share of property, production, and sales/tariffs
- Bracketed tax rate, with highest rate of 9.4 percent on taxable income over $222,000

Proposed Legislation

THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Primary Bill Provisions

- Oil & Gas Corporate Income Tax extended to pass-through entities

- Retroactive to January 1, 2025

Oil & Gas Corporate Income Tax

Current law, only C-Corporations are subject to Alaska's corporate income tax – Oil and Gas and Non-Oil and Gas

Proposed Legislation Provisions - SB 92 (CS)

- Would tax oil and gas pass-through entities with "taxable income" over $5 million at a rate of 9.4 percent (no tax on income up to $5 million)

- "Taxable income" defined as income from the production of oil or gas from a lease or property in the state or from the transportation of oil or gas by pipeline in the state

- Applies only to entities that do not flow through to a C-corporation. No impact on current tax on C-corporations

Oil & Gas Corporate Income Tax Brackets

C-Corporations:

Corporate Income Tax Brackets	Current Statute
Taxable Income	**Tax Rate**
Less than $25,000	0.00%
$25,000 but less than $49,000	2% of taxable income over $25,000
$49,000 but less than $74,000	$480 + 3% of taxable income over $49,000
$74,000 but less than $99,000	$1,230 + 4% of taxable income over $74,000
$99,000 but less than $124,000	$2,230 + 5% of taxable income over $99,000
$124,000 but less than $148,000	$3,480 + 6% of taxable income over $124,000
$148,000 but less than $173,000	$4,920 + 7% of taxable income over $148,000
$173,000 but less than $198,000	$6,670 + 8% of taxable income over $173,000
$198,000 but less than $222,000	$8,670 + 9% of taxable income over $198,000
Greater than $222,000	$10,830 + 9.4% of taxable income over $222,000

Note: Tax brackets shown are in whole dollars.

SB92 Qualifying Entities:

Corporate Income Tax Brackets	CS SB92 (RES)
Taxable Income	**Tax Rate**
Less than $5,000,000	0.00%
Greater than $5,000,000	9.4% of taxable income over $5,000,000

- Top marginal rate would be the same for C-corporations and qualifying passthrough entities
- The $5 million exclusion would be larger for qualifying passthrough entities than C-corporations

FISCAL NOTE

THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

Disclaimer

- Fiscal Impact of SB 92 (CS) is Indeterminate
- DOR does not have complete data about the worldwide income and apportionment factors for qualifying companies
- Range of impacts per Spring 2025 Forecast is zero to $150 million/ year
- One possible scenario is based on a simple “scale up” methodology
- All analysis presented is based on this one scenario within a range of potential outcomes

Oil & Gas Corporate Income Tax: Fiscal Scenario

CS SB92 (RES) Potential Fiscal Impact Scenario:

- Fiscal Impact is indeterminate, with a potential range from zero to $150 million/ year

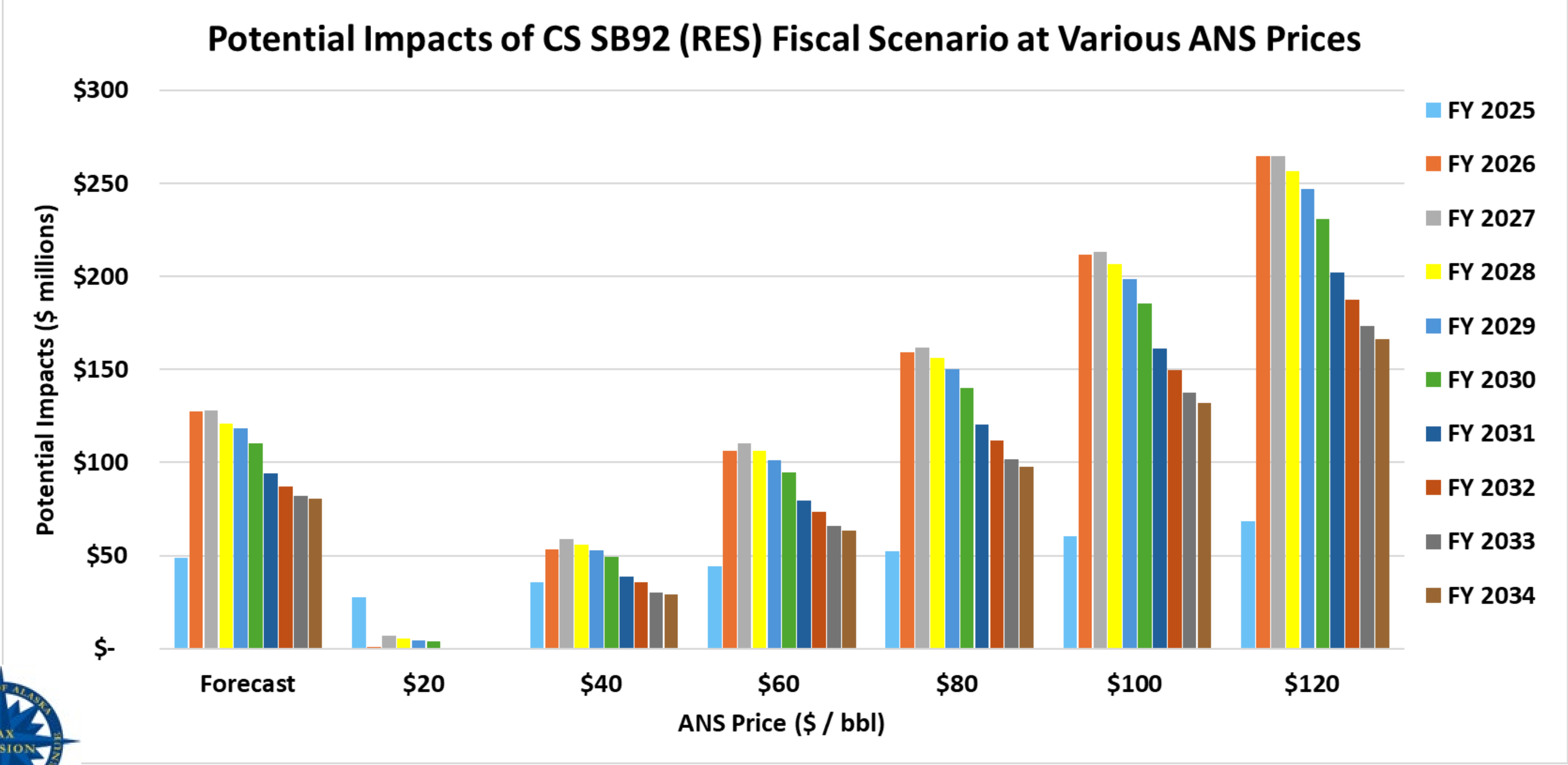
$ Millions	Fiscal Scenario Potential Impacts									
Unrestricted General Fund Revenue	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
9.4% effective tax rate, Retroactive 1/1/25 effective date (applies starting tax year 2025)	$ 50	$ 125	$ 130	$ 120	$ 120	$ 110	$ 95	$ 85	$ 80	$ 80

Assumptions:

- Ownership structure for Alaska oil and gas production as of the Spring 2025 Forecast, including announced transactions
- Profitability for non-C corporations is similar on a per-barrel basis to that of C corporations
- Revenue is based on production activities, excluding pipeline ownership or other in-state assets
- A single non-C corporation taxpayer, taxed as of January 1, 2025, at a rate of 9.4 percent for income over $5,000,000

Source: Spring 2025 Forecast, DOR Analysis

Fiscal Scenario at Range of Oil Prices



Source: Spring 2025 Forecast, DOR Analysis

DISTRIBUTION OF PROFITS

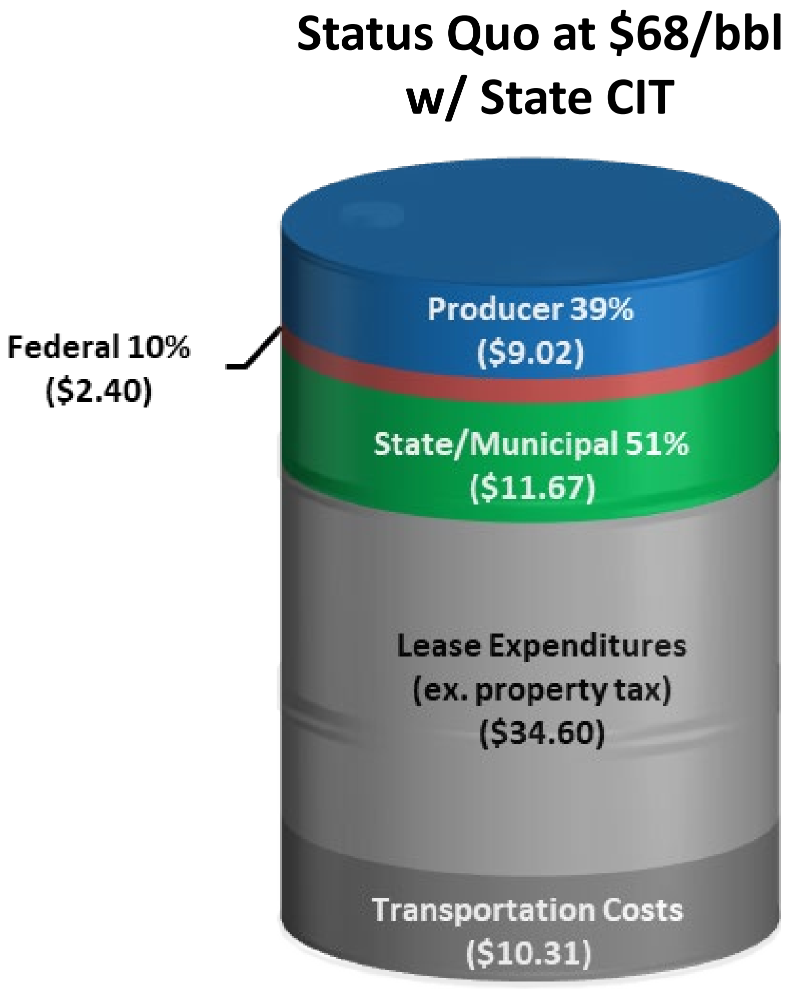
THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

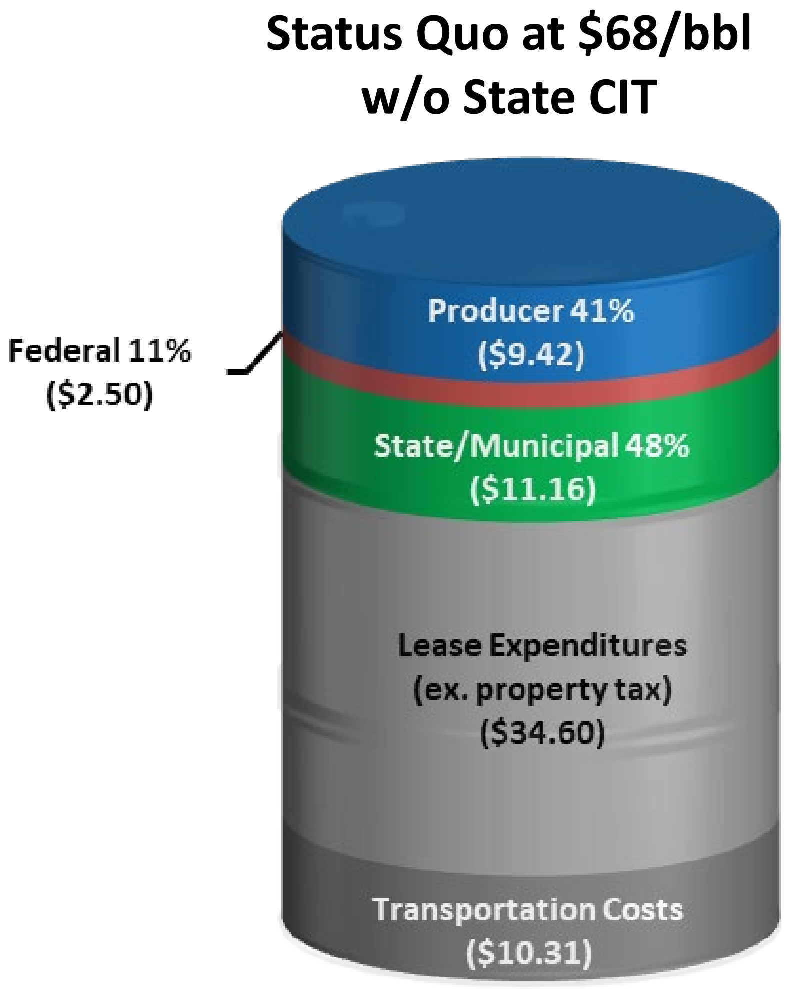
North Slope Distribution of Profits

- Based on Spring 2025 Forecast for FY 2026
- Assumes “typical” barrel of oil production
- Assumes typical lease expenditures for a producer
  - $20.77/ bbl. capex, $15.84/ bbl. opex
- Assumes a single taxpayer on state land, 12.5 percent royalty
- Assumes $2.00 per barrel property tax
- Assumes 4.25 percent effective state corporate income tax, 21 percent federal corporate income tax
  - 4.25 percent is based on historical analysis for companies subject to state corporate income tax
- Does not include any potential changes in company behavior or investment as a result of this proposal

Source: Spring 2025 Forecast, DOR Analysis

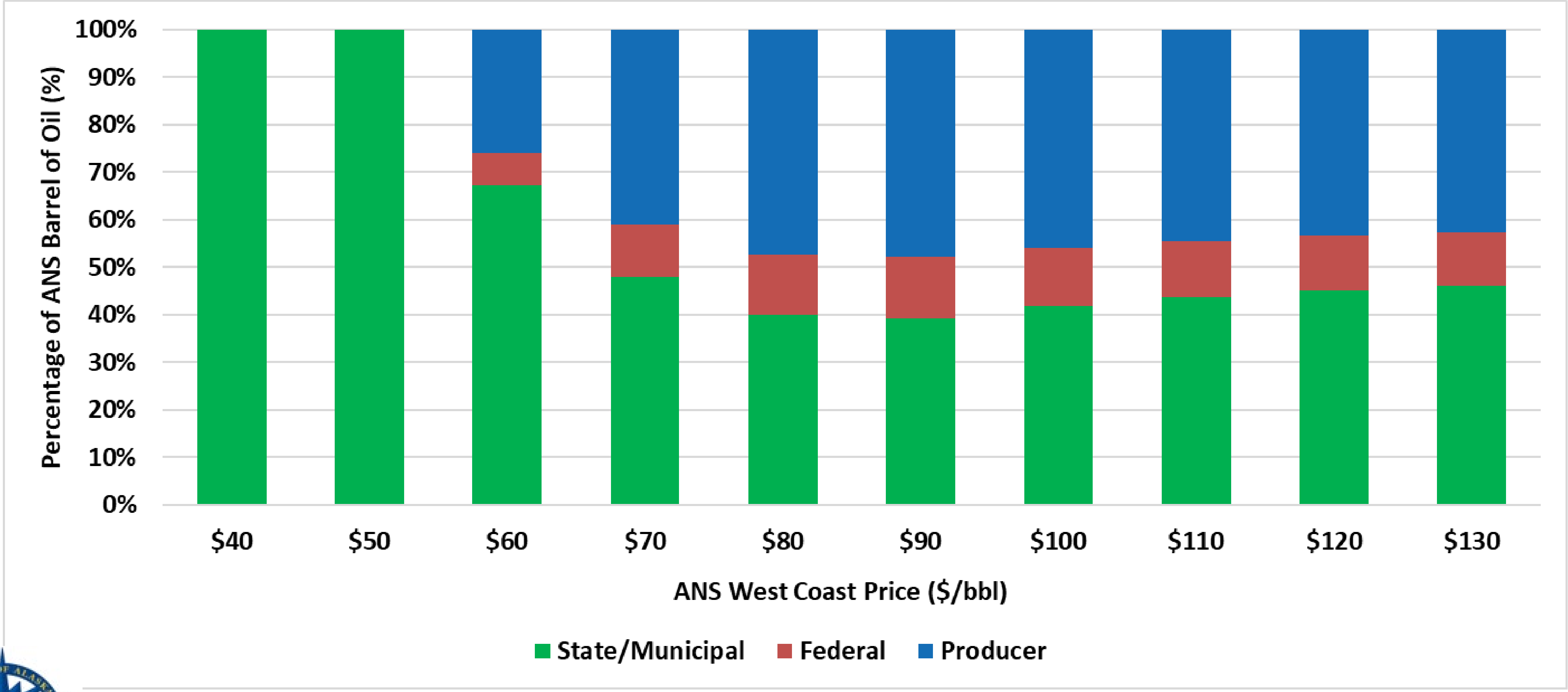
Government Take Per Barrel: Status Quo w/ and w/o State CIT





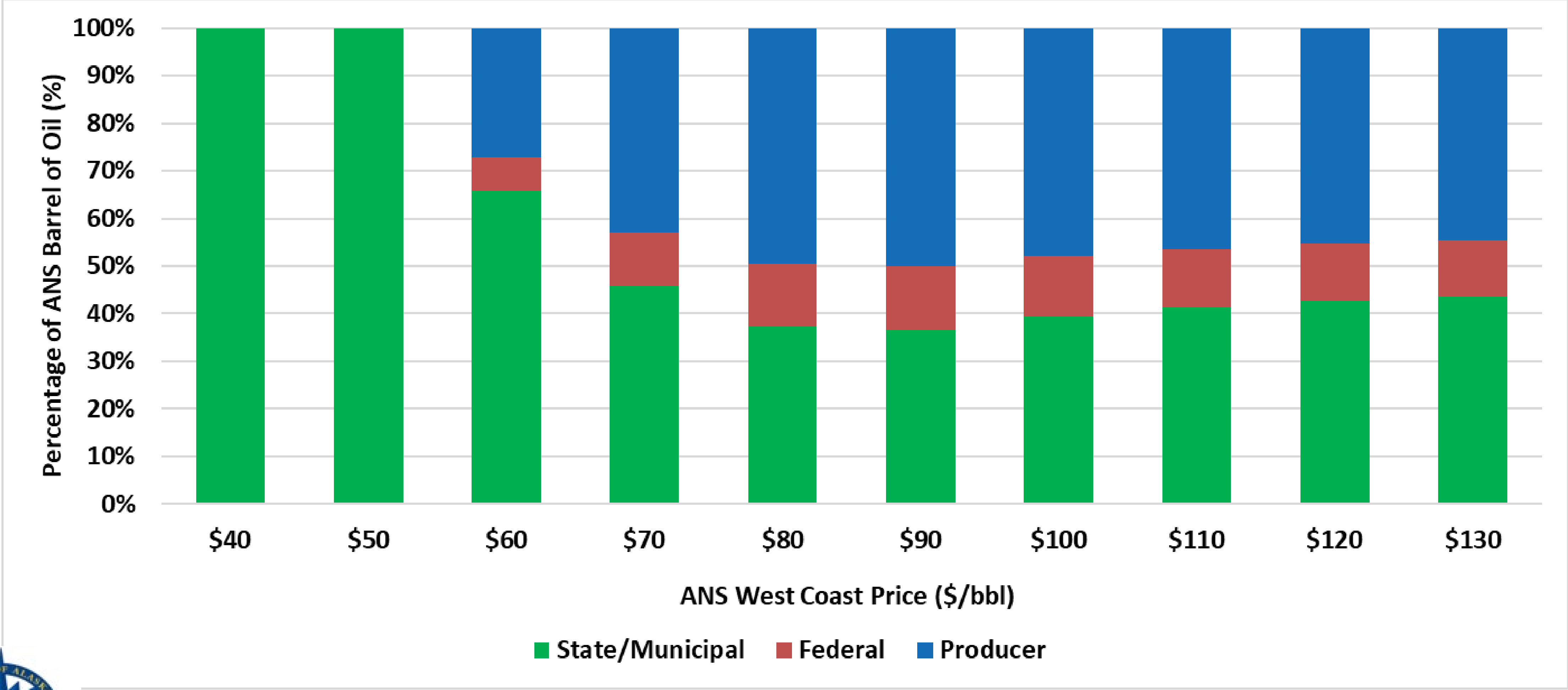
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/ State CIT, Forecast CapEx)



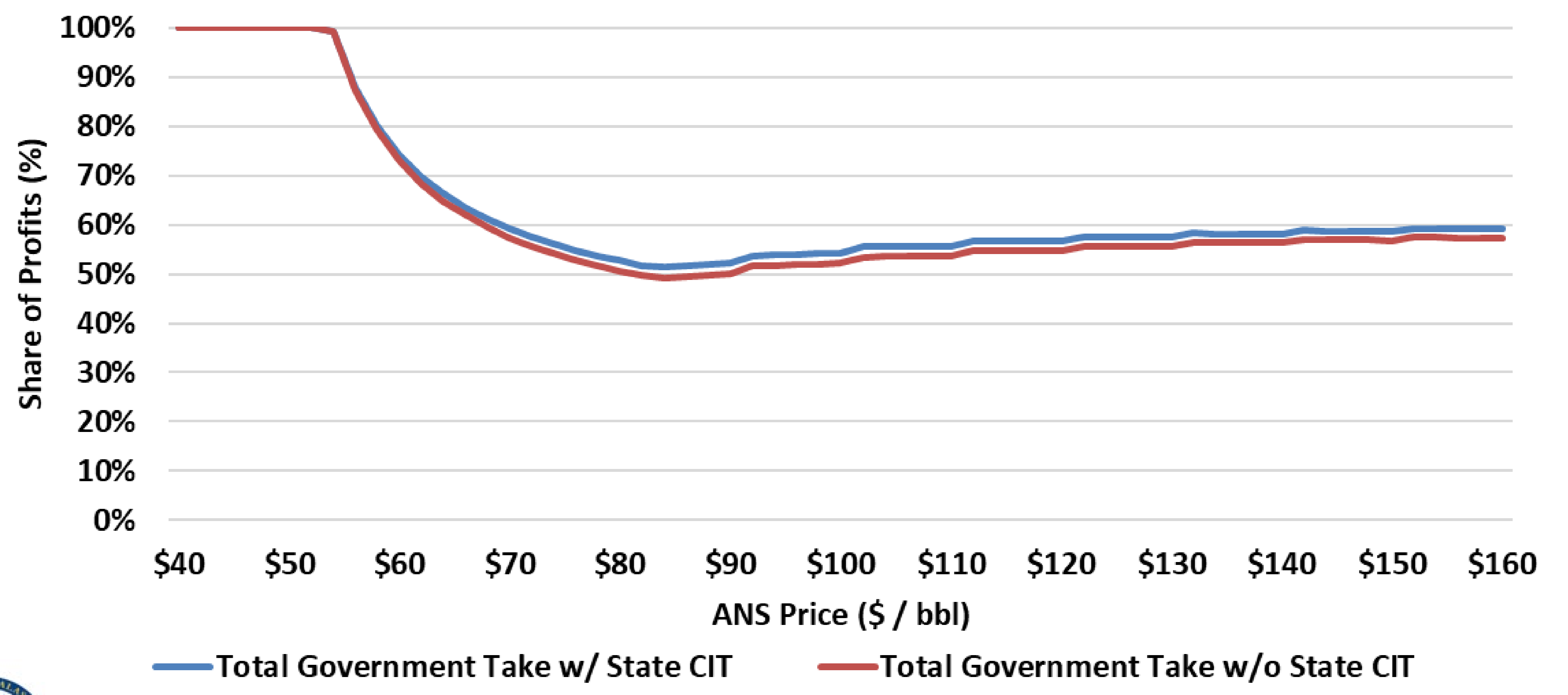
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/o State CIT, Forecast CapEx)



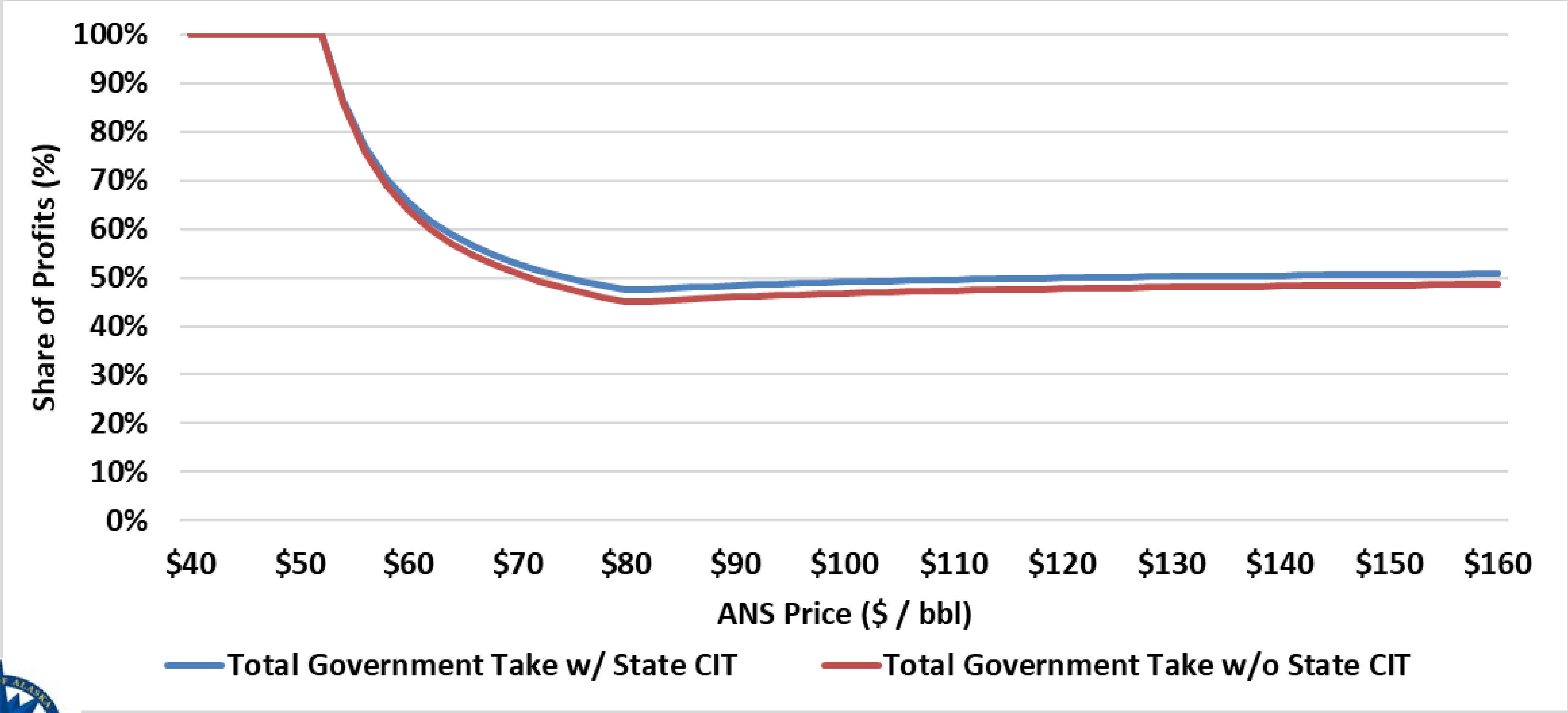
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Total Government Take: Non-GVR Production, Status Quo, Forecast Capex



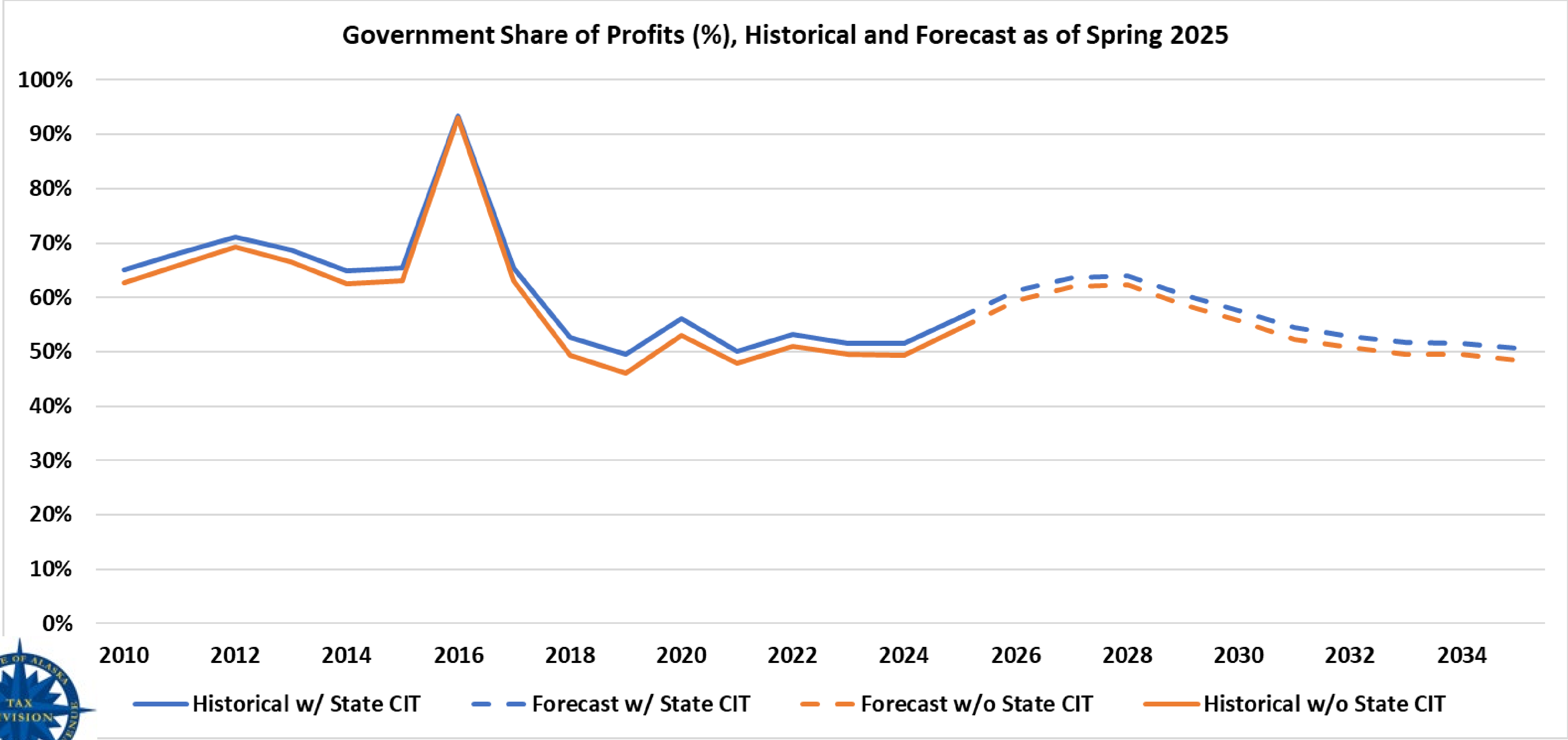
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Total Government Take: GVR Production, Status Quo, Forecast Capex



Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take: Retrospective and Prospective



Source: DOR Spring 2025 Revenue Forecast

Fiscal Analysis: Takeaways

- Fiscal Impact is uncertain and indeterminate
- Alaska is a high-cost jurisdiction so there is a limited amount of "profit" to share between stakeholders
- At forecast price, state CIT adds about 40 cents/ barrel to government take or about 2 percent of total distributable income
    - Assuming typical effective tax rate
- Each company and field has unique economics, so this simple analysis should be taken in context
    - Impacts on individual companies may be more less than estimated here

THANK YOU

Dan Stickel
Chief Economist
Department of Revenue
daniel.stickel@alaska.gov
(907) 465-3279

dor.alaska.gov

APPENDIX

Impacts on “Low Cost” and “High Cost” Producer

THE STATE of ALASKA
GOVERNOR MICHAEL J. DUNLEAVY

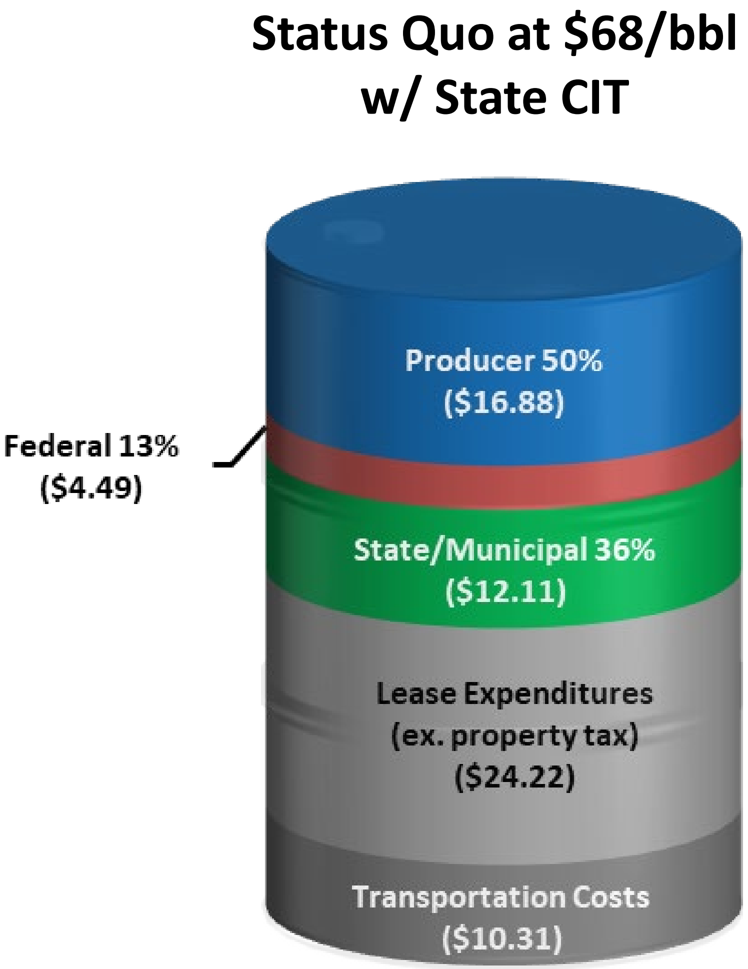
Appendix Summary

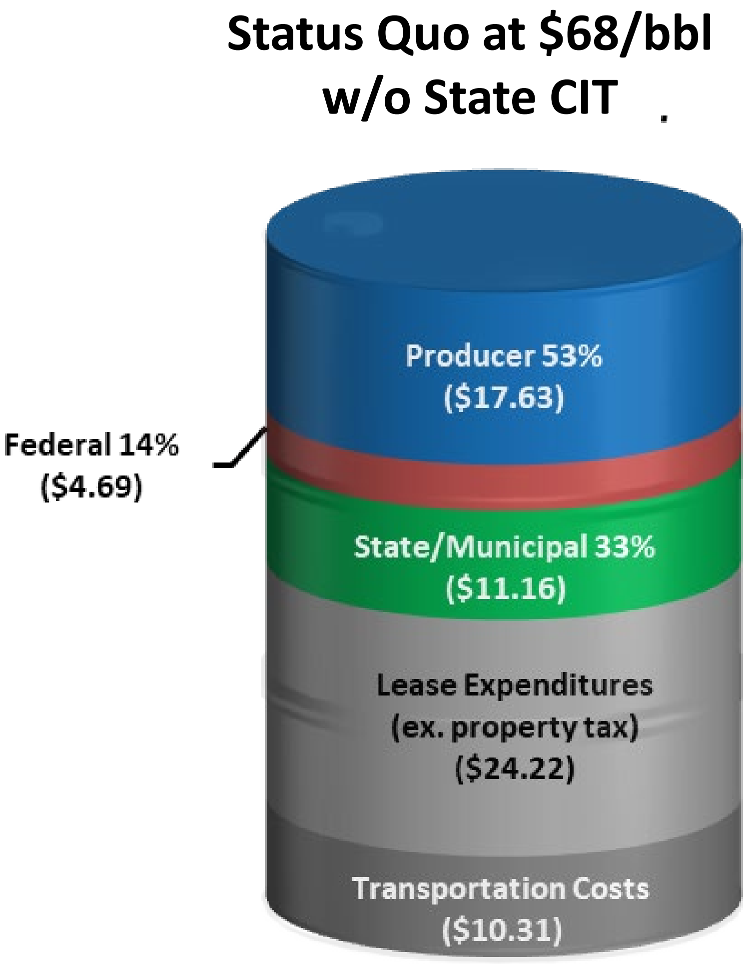
- Government Take for a “Low Cost Producer”
  - Assume $10.38/ barrel capex (1/2 typical)

- Government Take for a “High Cost Producer”
  - Assume $41.51/ barrel capex (2x typical)

- Attempts to illustrate range of individual company impacts / government take

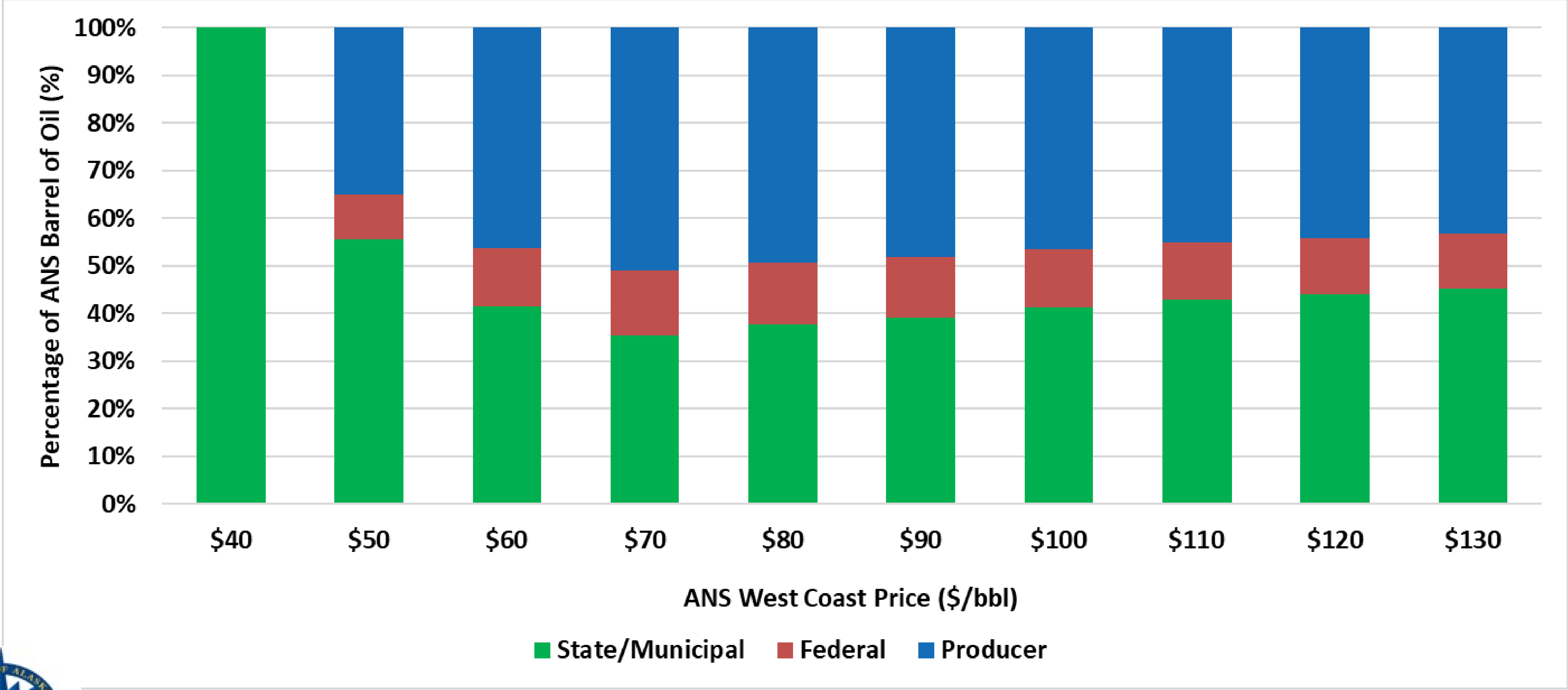
Government Take Per Barrel: Status Quo w/ and w/o State CIT (½ CapEx)





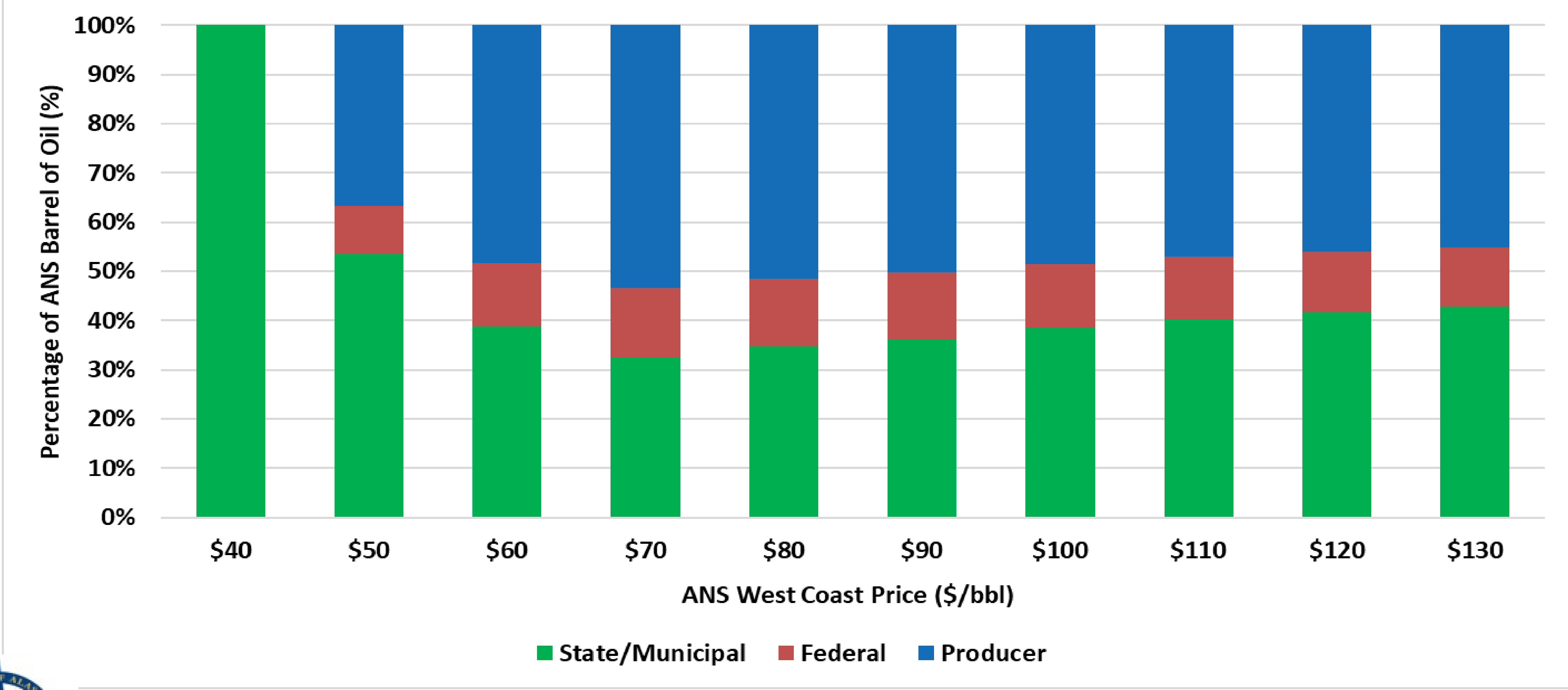
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/ State CIT, ½ CapEx)



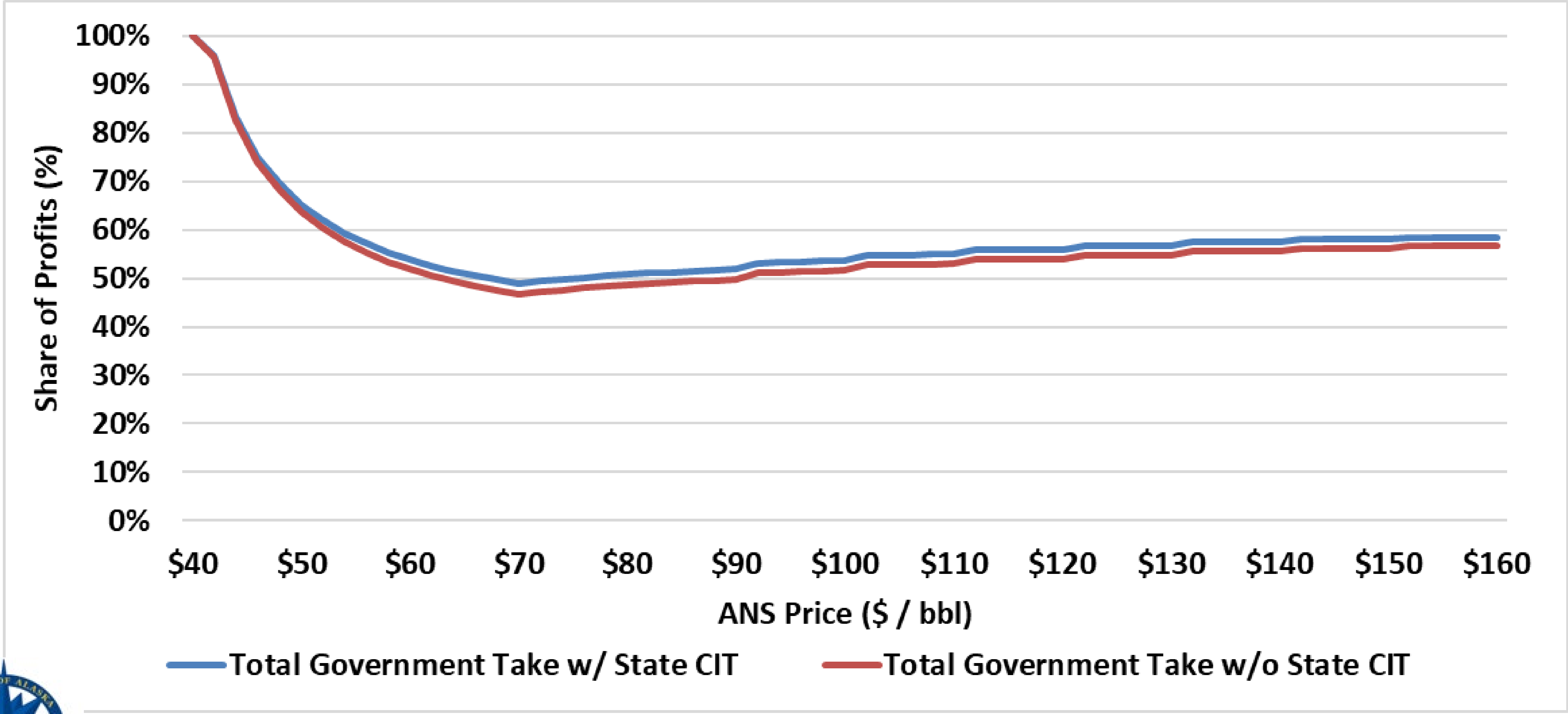
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/o State CIT, ½ CapEx)



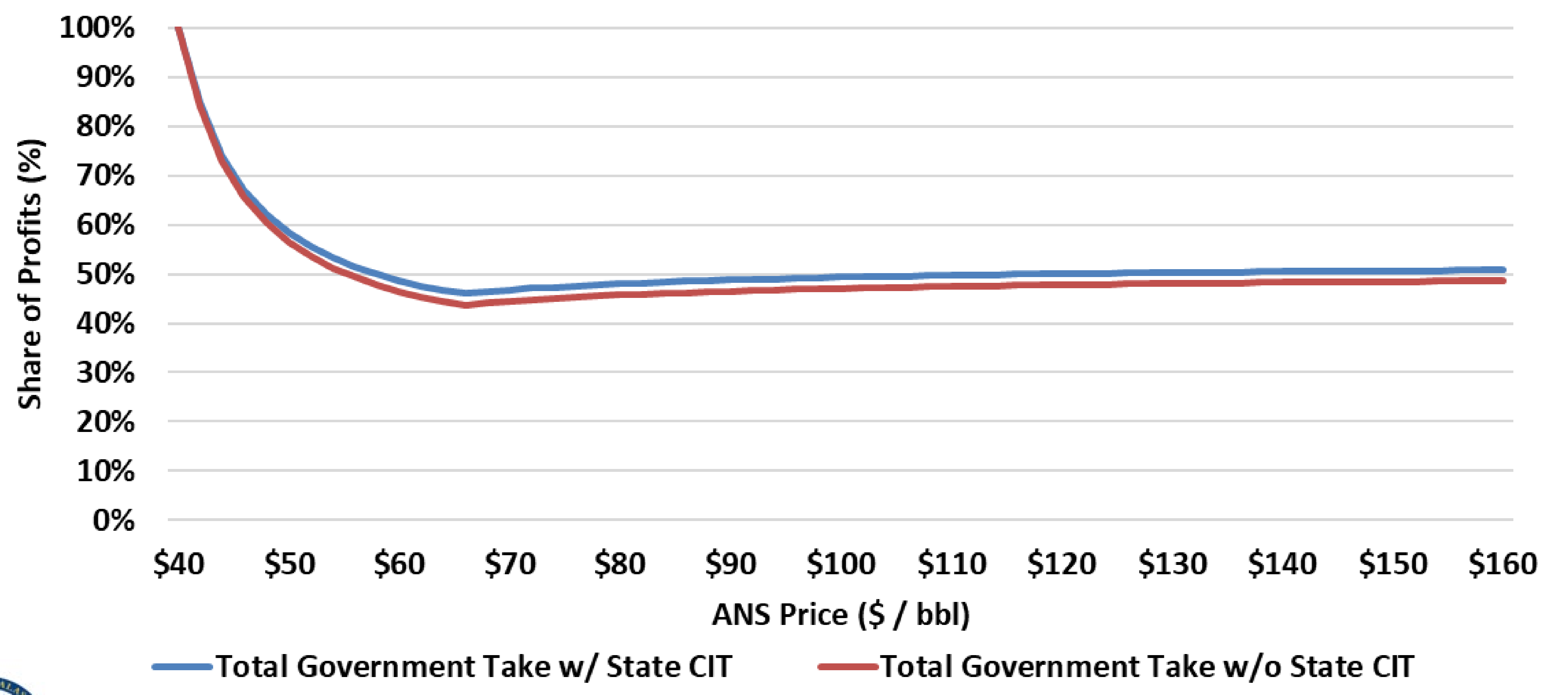
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Total Government Take: Non-GVR Production, Status Quo, ½ Capex



Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

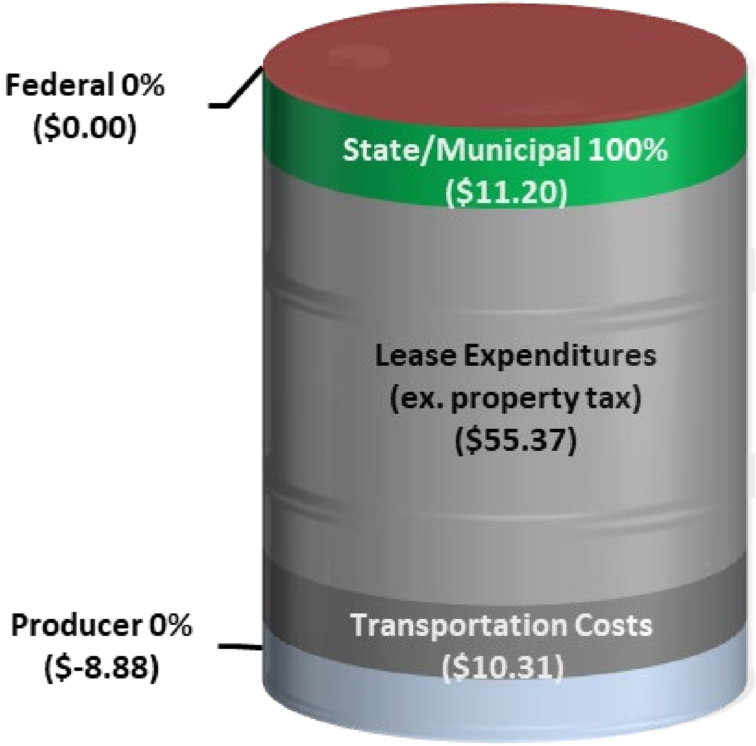
Total Government Take: GVR Production, Status Quo, ½ Capex



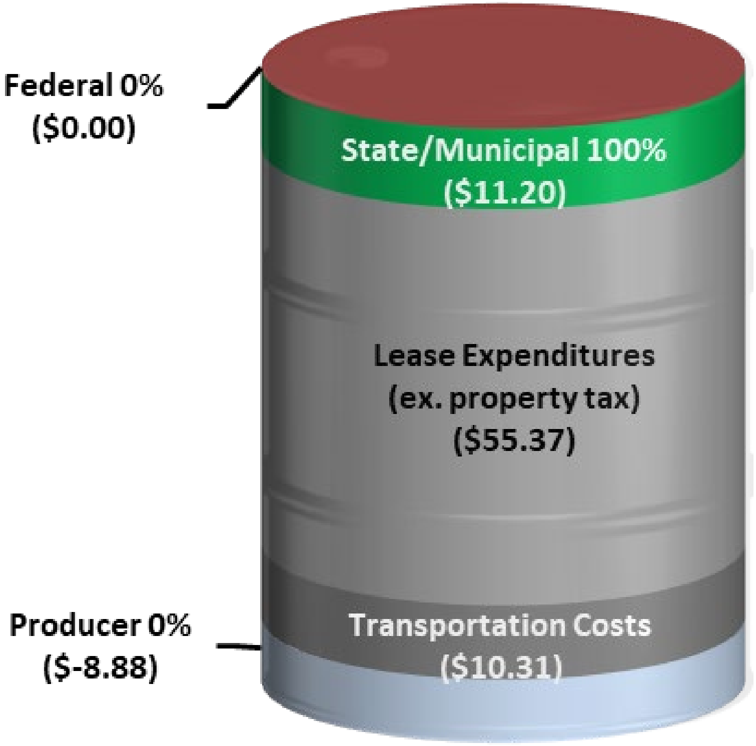
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take Per Barrel: Status Quo w/ and w/o State CIT (2x CapEx)

**Status Quo at $68/bbl
w/ State CIT**

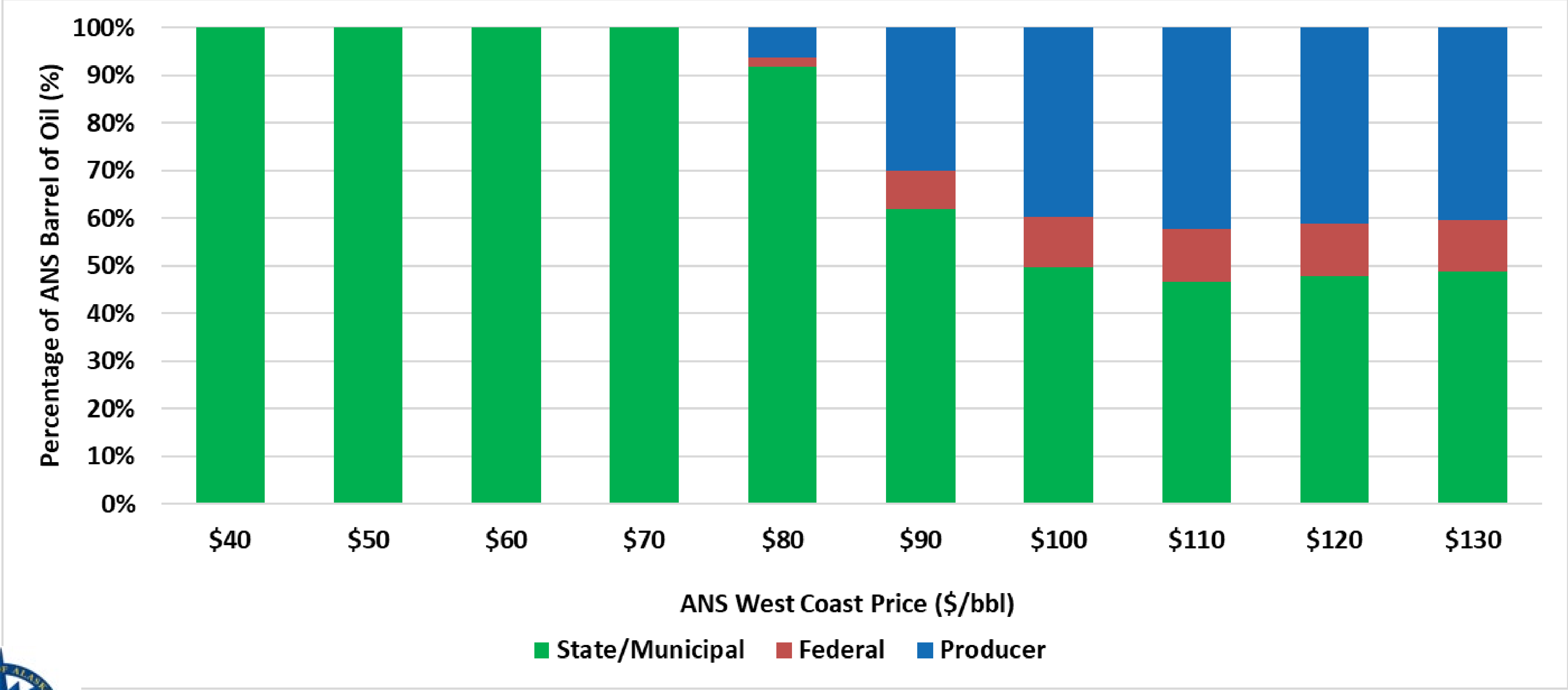


**Status Quo at $68/bbl
w/o State CIT**



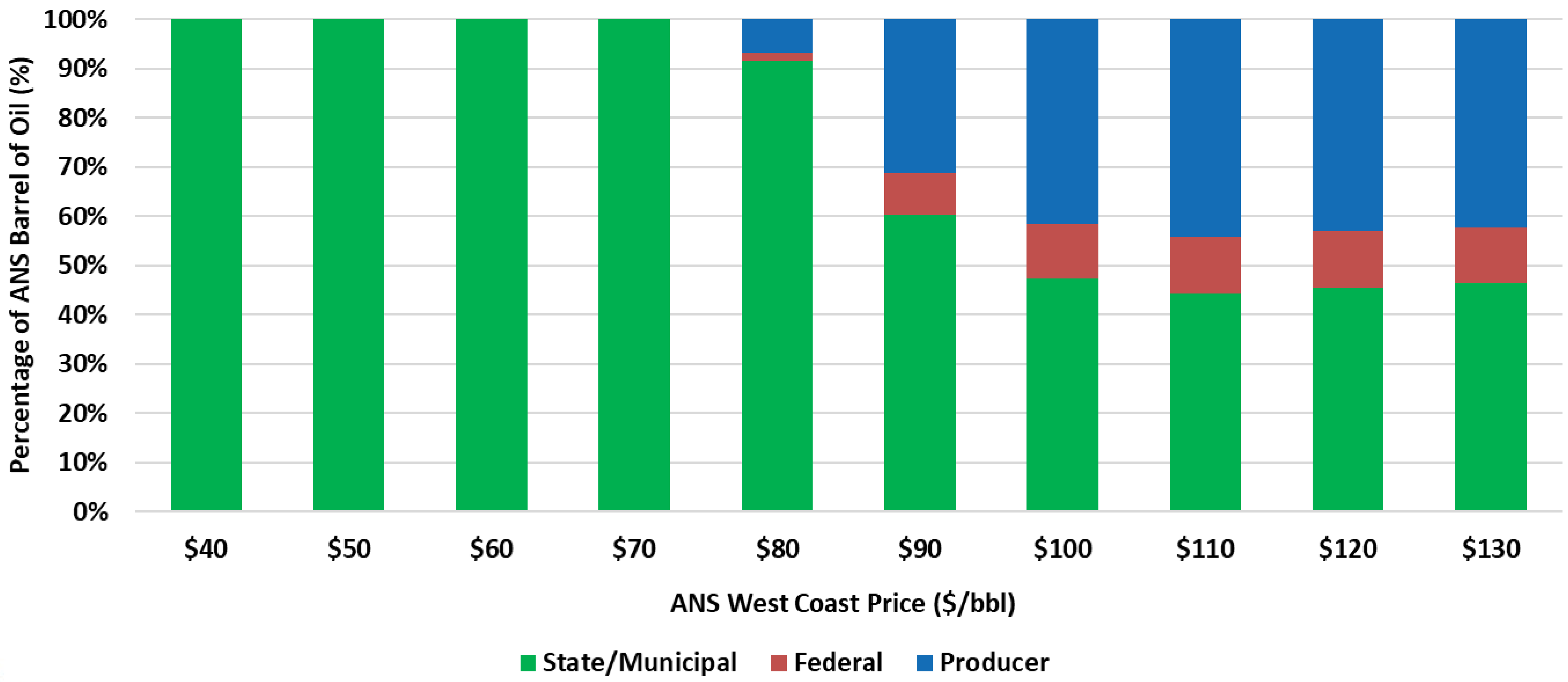
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/ State CIT, 2x CapEx)



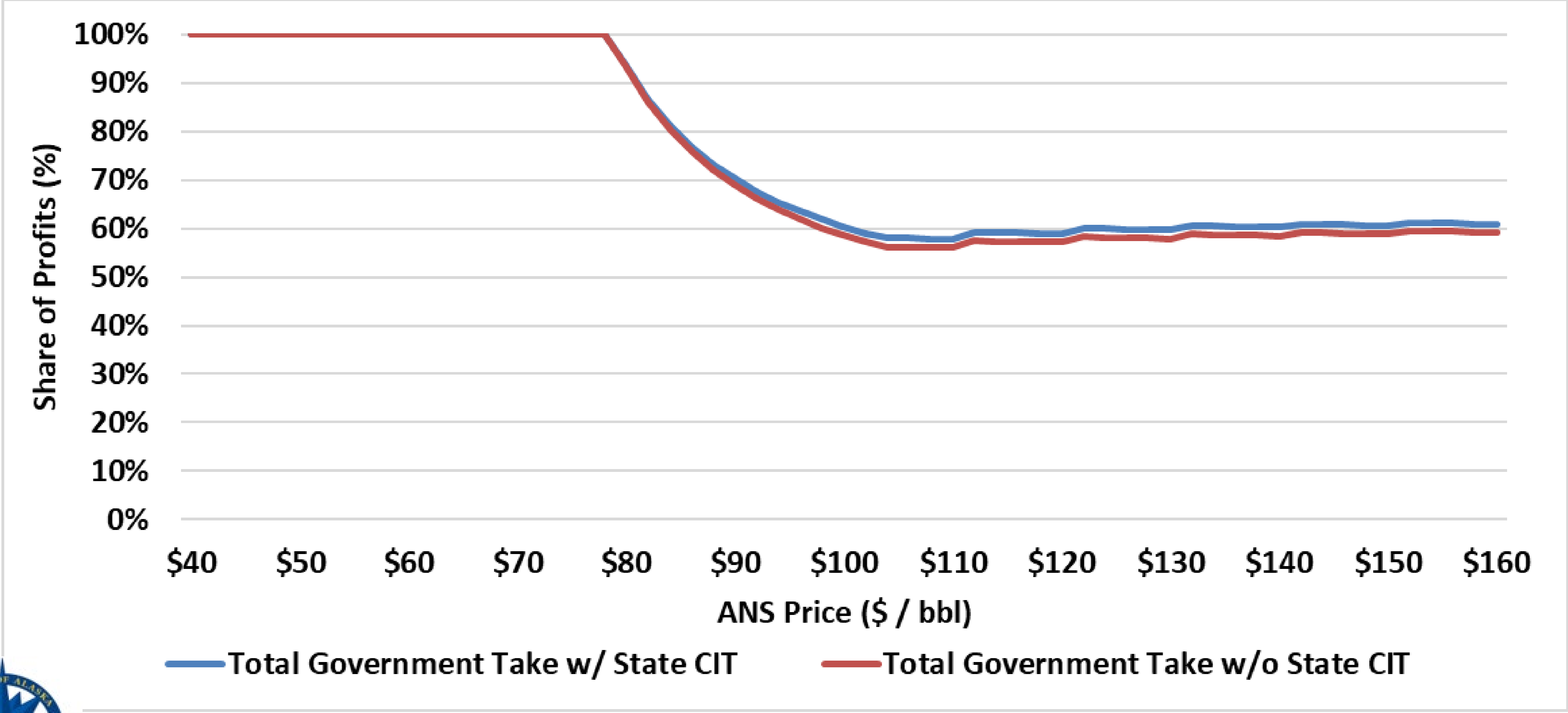
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Government Take at Various Oil Prices: Status Quo (w/o State CIT, 2x CapEx)



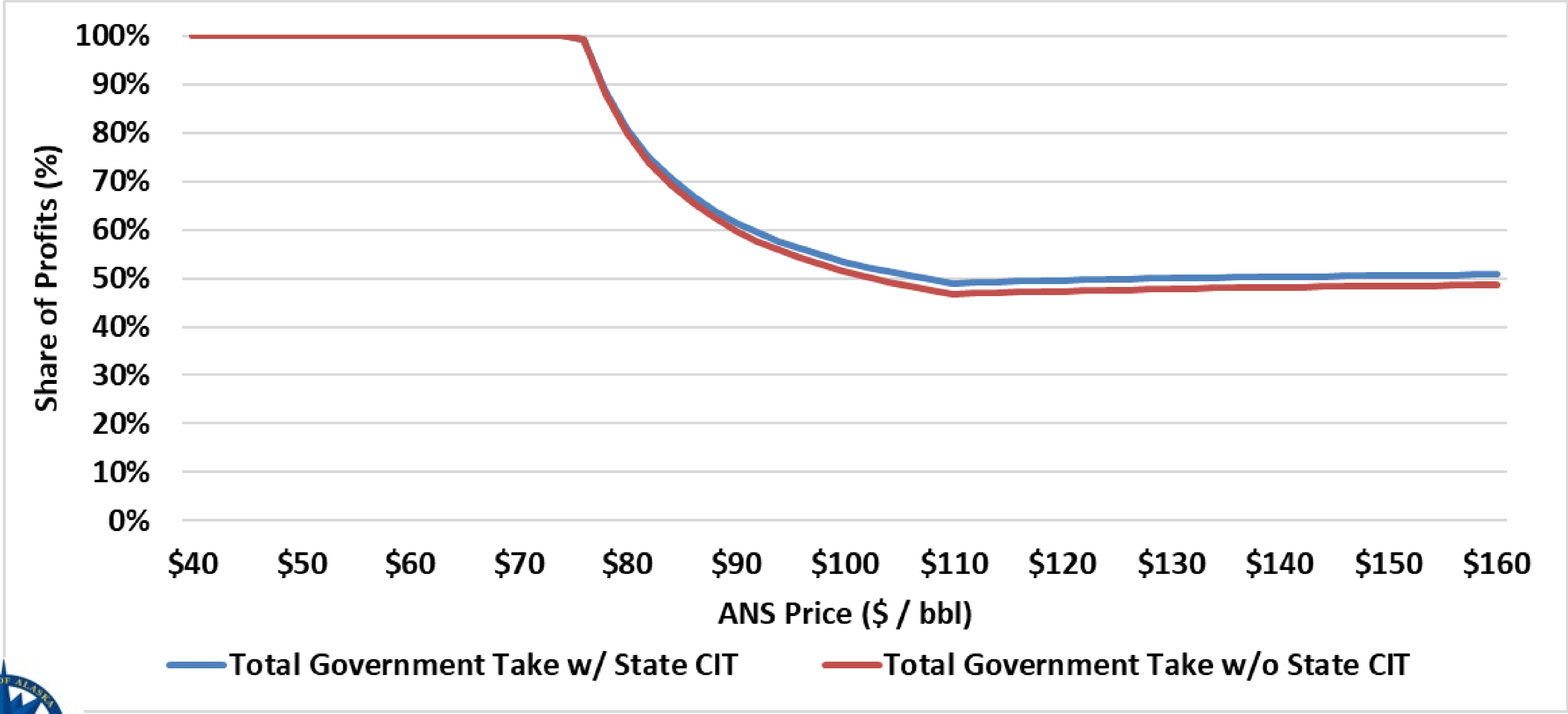
Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Total Government Take: Non-GVR Production, Status Quo, 2x Capex



Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.

Total Government Take: GVR Production, Status Quo, 2x Capex



Source: DOR Spring 2025 Forecast for FY 2026. This model is a simplified and aggregated one-year illustration of government take. DOR is in the process of reviewing and analyzing the data on which this is based. Future analyses could have different results. Numbers may not add exactly due to rounding.